

Implementation Statement for the year ending 31 March 2021

1. Introduction

This document is the Annual Implementation Statement (“the statement”) prepared by the Trustee of the National Grid UK Pension Scheme (the “Scheme”) covering the Scheme year (“the year”) from 1 April 2020 to 31 March 2021.

The purpose of this statement is to set out:

- Details of how and the extent to which, in the opinion of the Trustee, the Trustee’s policy on engagement and voting as set out in the Statement of Investment Principles (the “SIP”) has been adhered to during the year; and
- A description of voting behaviour (including the most significant votes made on behalf of the Trustee) and any use of proxy voting services during the year.

The SIP is a document which outlines the Trustee’s policy with respect to various aspects related to investing and managing the Scheme’s assets including, but not limited to: Investment Managers, portfolio construction and risks.

The latest version of the SIP, which is effective on and from 1 October 2020, can be found online at gas.nationalgridpensions.com.

This statement reflects the year 1 April 2020 to 31 March 2021. Over this period, the Scheme had two SIPs in effect; the earlier version of the SIP dated July 2019 and the most recent version of the SIP effective on and from 1 October 2020. The SIP was updated to include new policies to adhere to regulatory requirements.

In preparing this implementation statement, only the SIP effective on and from 1 October 2020 has been considered. The Trustee is satisfied that the policies described in the most recent version of the SIP dated October 2020 are the same or more rigorous than the earlier version of the SIP dated July 2019.

2. How the Trustee has adhered to the engagement and voting policy

The Trustee’s engagement and voting policy as outlined in the SIP is as follows:

The Trustee believes that active ownership is the most appropriate channel to promote positive ESG practices. As all of the Scheme’s assets are managed externally, the Trustee delegates voting and engagement to external Investment Managers and expects each to vote on their portfolio holdings in line with their internal voting policies (which are reviewed by the Trustee Executive periodically) and relevant recognised standards (e.g., the UK Stewardship Code). Any exceptions should be reported back to the Trustee Executive.

The key role of active ownership to promote positive ESG practices is reflected in the Trustee Responsible Investment (“RI”) Policy and RI Framework. The RI Framework sets out the approach to integrate ESG/RI considerations to the different parts of the Scheme’s investment process and aims to drive the Scheme towards best practice.

The RI Framework articulates particular requirements to the external Investment Managers to engage and vote on the Scheme’s behalf and to report on these activities at least on a quarterly basis. The Trustee, via its in-house team Trustee Executive Limited (“TEL”), continuously engages with external Investment Managers to monitor compliance with this framework. Furthermore, the framework enables the Trustee, via TEL, to

either unilaterally or collaboratively undertake direct engagement on themes and topics that are particularly relevant to the Scheme.

Over the year, the Trustee has undertaken the following actions in line with its RI Policy and Framework:

- TEL monitored the external Investment Managers and their mandates on an ongoing basis and met with each manager at least quarterly. During these meetings the integration of RI/ESG into the investment processes, risk management and engagement activities of the Investment Managers were challenged and discussed. Following the Scheme's Investment Beliefs and [Climate Change Strategy Statement](#) a particular focus during these meetings was the identification and assessment of climate-related risks and opportunities in their investment processes and engagement approaches. In line with the Climate Change Strategy, the first steps have been taken to divest from thermal coal related assets by 2022.
- In addition to these meetings, TEL met with the Heads of RI/ESG of the external Investment Managers where the Scheme has the largest exposures semi-annually. Key topics engaged upon were the Investment Managers' long-term RI/ESG strategies and key stewardship themes.
- These ongoing engagements with managers fed into the RI Manager Update presented to the Trustee, which rated the external Investment Managers' RI approaches and highlighted the changes since the last review provided in early 2019. TEL used three classifications (Leaders, Improvers or Laggards) to rate the managers' RI approaches at total firm level and with regards to the Scheme's mandates. Overall, the Investment Managers' RI ratings have slightly improved both on a firm and mandate level. Key observations were that partly as a result of TEL's engagement the Investment Managers have made improvements with regards to:
 - enhanced policies, governance structures and resourcing that provide the basis for the successful application of RI principles
 - more structured approaches to identify RI/ESG-related risks and opportunities at individual transaction level, and making RI/ESG considerations a key factor in investment processes
 - enhancements to reporting, in particular at mandate level
- Over the year TEL's engagement with external Investment Managers on the integration of RI/ESG considerations to their investment processes was not limited to the managers of public market mandates, but also included managers of the Scheme's private market allocations, in particular Direct Real Estate and Secure Income Assets. Key achievements have for example been the design and implementation of a 2040 net zero pathway strategy by the Scheme's Direct Real Estate Investment Manager and the Scheme's first participation in sustainability-linked real estate financings, structured by one of the Secure Income Assets Investment Managers.
- Consistent with the Trustee beliefs and RI Framework, the Scheme has also started to engage with insurers that it entered into buy-in transactions with on the alignment of their portfolios of assets with the ambitions of the Paris Agreement.
- With regards to collaborative engagement, in February 2021 the Scheme has started to support the Paris Aligned Investor Initiative ("PAII") of the Institutional Investors' Group on Climate Change ("IIGCC"), which aims to coordinate the actions of large investors to meet climate change targets in the UK. The Scheme also supports the investor-led initiative Climate Action 100+.

The Appendix summarises the voting behaviour and use of proxy voting services of the external Investment Managers that managed the Scheme's equity investments during the year.

3. Conclusion

The Trustee believes that the engagement policy as outlined in the SIP has been adhered to over the year.

Following the monitoring of the Scheme's Investment Managers over the year, and reviewing the voting information outlined in this statement, the Trustee is satisfied that the external Investment Managers are acting in the Scheme members' best interest and are effective stewards of the Scheme's assets.

The Trustee will continue to monitor the Investment Managers' stewardship practices on an ongoing basis.

Appendix

This section focusses on the Scheme's equity investments which have voting rights attached. Over the year, the Scheme held equities in mandates managed by Legal & General Investment Management (LGIM) and Goldman Sachs Asset Management (GSAM).

As set out in the SIP, the Trustee's policy is to delegate the exercising of voting rights to the Scheme's external Investment Managers. The Scheme's Investment Managers have their own voting policies which determine their approach to voting, and the principles they follow when voting on investors' behalf.

Investment Managers also use voting proxy advisors which aid in their decision-making when voting. LGIM's and GSAM's use of proxy voting services are summarised below:

LGIM
<p>LGIM's Investment Stewardship team uses Institutional Shareholder Services' (ISS) electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and they do not outsource any part of the strategic decision.</p> <p>LGIM use ISS recommendations to augment their own research. LGIM's internal investment stewardship team also use research reports of Institutional Voting Information Services (IVIS) to supplement the research reports that they receive from ISS for UK companies when making specific voting decisions.</p> <p>LGIM have a custom voting policy in place which includes specific voting instructions which apply to all markets globally. LGIM has the ability to override any vote decisions which are based on this custom voting policy if they see fit.</p>
GSAM
<p>GSAM has developed customised global guidelines on proxy voting and use ISS to assist in the implementation of certain proxy voting related functions including, without limitation, operational, recordkeeping and reporting services.</p> <p>Amongst ISS' responsibilities, the service prepares written analysis and a recommendation of each proxy vote which reflects ISS' application of GSAM's guidelines.</p> <p>GSAM retain the responsibility for all proxy voting decisions.</p>

The below table sets out the voting activity of the Scheme’s equity Investment Managers, on behalf of the Trustees, over the year:

Voting activity	LGIM	GSAM
Number of meetings at which the manager was eligible to vote	2050	636
Number of resolutions on which manager was eligible to vote	24,330	7,581
Percentage of eligible votes cast	99.9%	94.0%
Percentage of votes with management	81.4%	94.0%
Percentage of votes against management	18.0%	6.0%
Percentage of votes abstained from	0.6%	0.0%
Of the resolutions where the manager voted, the percentage where the manager voted contrary to the recommendation of the proxy adviser	0.3%	3.0%

The following table outlines the most significant votes cast by the Scheme’s Investment Managers on the Trustee’s behalf over the year:

LGIM
<p>Company and meeting date: Samsung Electronics, 17 March 2021.</p> <p>Resolution: Management proposal to elect Park Byung-gook as Outside Director, elect Kim Jeong as Outside Director and elect Kim Sun-uk as Outside Director to serve as an Audit Committee Member.</p> <p>How the manager voted: Against.</p> <p>Rationale: In January 2021, Lee Jae-yong, the vice chairman of Samsung Electronics and only son of the former company chairman, was sentenced to two years and six months in prison for bribery, embezzlement and concealment of criminal proceeds worth about KRW 8.6 billion. Lee Jae-yong was first sentenced to five years in prison in August 2017 for using the company’s funds to bribe the impeached former South Korean President Park Geun-hye. While Lee was released from prison, he was not acquitted of the charges. Based on the court’s verdict, Lee actively provided bribes and implicitly asked then President Park to use her power to help his smooth succession. The court further commented that the independent compliance committee established in January 2020 has yet to become fully effective.</p> <p>LGIM engaged with the company ahead of the vote however were not satisfied with the company’s response that ties have been severed. LGIM are concerned that Lee Jae-yong continues to make strategic company decisions from prison.</p> <p>LGIM voted against the resolutions as the outside directors, who should provide independent oversight, have collectively failed to remove criminally convicted directors from the board. The inaction is indicative of a material failure of governance and oversight at the company.</p> <p>Vote outcome: The meeting results are not yet available at the time of writing however LGIM will continue to monitor the company.</p>
<p>Company and meeting date: Amazon, 27 May 2020.</p> <p>Resolution: Numerous shareholder proposals.</p>

How the manager voted: Of 12 shareholder proposals, LGIM voted to support 10.

Rationale: LGIM looked into the individual merits of each individual proposal, and there are two main areas which drove their decision-making: disclosure to encourage a better understanding of process and performance of material issues (resolutions 5, 6, 7, 8, 10, 13, 15 and 16) and governance structures that benefit long-term shareholders (resolutions 9 and 14).

LGIM's team has had multiple engagements with Amazon over the past 12 months. The topics of their engagements touched most aspects of ESG, with an emphasis on social topics:

- **Governance:** Separation of CEO and board chair roles, plus the desire for directors to participate in engagement meetings.
- **Environment:** Details about the data transparency committed to in their 'Climate Pledge'.
- **Social:** Establishment of workplace culture, employee health and safety. LGIM perceives the allegations from current and former employees as worrying. Amazon employees have consistently reported not feeling safe at work and that paid sick leave is not adequate. Also cited is an ongoing culture of retaliation, censorship, and fear.

Vote outcome: Resolution 5 to 8, and 14 to 16 each received approximately 30% support from shareholders. Resolutions 9 and 10 received respectively 16.7% and 15.3% support. Resolution 11 received 6.1% support. Resolution 12 received 1.5 % support. Resolution 13 received 12.2% support.

Despite shareholders not giving majority support to the raft of shareholder proposals, the sheer number and focus on these continues to dominate the landscape for the company. LGIM's engagement with the company continues as they push Amazon to disclose more, and to ensure it is adequately managing its broader stakeholders, and most importantly, its human capital.

Company and meeting date: ExxonMobil, 27 May 2020.

Resolution: Management proposal to elect Director Darren W. Woods.

How the manager voted: Against.

Rationale: In June 2019, under LGIM's annual 'Climate Impact Pledge' ranking of corporate climate leaders and laggards, LGIM announced that they will be removing ExxonMobil from their Future World fund range and will be voting against the chair of the board.

Ahead of the company's annual general meeting in May 2020, LGIM also announced they will be supporting shareholder proposals for an independent chair and a report on the company's political lobbying. Due to recurring shareholder concerns, LGIM's voting policy also sanctioned the reappointment of the directors responsible for nominations and remuneration.

Vote outcome: 93.2% of shareholders supported the re-election of the combined chair and CEO Darren Woods. Approximately 30% of shareholders supported the proposals for independence and lobbying. LGIM believe this sends an important signal, and will continue to engage, both individually and in collaboration with other investors, to push for change at the company.

Company and meeting date: The Procter & Gamble Company (P&G), 13 October 2020.

Resolution: Shareholder resolution asking the company to assess if and how it could increase its efforts to eliminate deforestation and the degradation of intact forests in its supply chains.

How the manager voted: For.

Rationale: P&G uses both forest pulp and palm oil as raw materials within its household goods products. The company has only obtained certification from the Roundtable on Sustainable Palm Oil for one third of its palm oil supply, despite setting a goal for 100% certification by 2020. In addition, two of their Tier 1 suppliers of palm oil were linked to illegal deforestation. Finally, the company uses mainly Programme for the Endorsement of Forest Certification (PEFC) wood pulp rather than Forestry Stewardship Council (FSC) certified wood pulp.

LGIM engaged with P&G to hear its response to the concerns raised and the requests raised in the resolution. LGIM spoke to representatives from the proponent of the resolution, Green Century. In addition, they engaged with the Natural Resources Defense Counsel to fully understand the issues and concerns.

Following a round of extensive engagement on the issue, LGIM decided to support the resolution. Although P&G has introduced a number of objectives and targets to ensure their business does not impact deforestation, LGIM felt it was not doing as much as it could.

Vote outcome: The resolution received the support of 67.68% of shareholders (including LGIM).

GSAM

Company and meeting date: China Mobile Limited, 20 May 2020.

Resolution: Manager proposal to elect Paul Chow Man Yiu and Stephen Yiu Kin Wah as Directors

Rationale: The nominees are incumbent members of the nominating committee and the board has no women directors. GSAM believe that diversity at board level can promote better board decision making and drive shareholder returns.

Vote outcome: The resolution passed however GSAM will continue to monitor the company for improvement in this area.

Company and meeting date: China Mengniu Dairy Company Limited, 3 June 2020.

Resolution: Management proposal to elect Julian Juul Wolhardt as Director and authorise the Board to fix his remuneration.

Rationale: The nominee is an incumbent member of the nominating committee and the board has no women directors. GSAM believe that diversity at board level can promote better board decision making and drive shareholder returns.

Vote outcome: The resolution passed however GSAM will continue to monitor the company for improvement in this area.